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AUDIT REPORTS

Follow-up to recommendations of the report of the Board of Auditors for the biennium 1996-1997 (A/53/5/Add.1)

Report of the Administrator

I. PURPOSE

1. As in previous bienniums, and in accordance with General Assembly resolutions 47/211 of 22 December 1992 (paras. 9, 10, and 12) and 48/216 B of 23 December 1993 (para. 5), the Administrator is bringing to the attention of the Executive Board the report of the Board of Auditors on UNDP for the biennium ending 31 December 1997 (A/53/5/Add.1).

2. The present report has been prepared in response to General Assembly resolution 48/216 B, in which the General Assembly requested the Secretary-General and the executive heads of United Nations organizations and programmes to provide the Assembly with their responses and to indicate measures that would be taken to implement those recommendations, with appropriate timetables, at the same time that the recommendations of the Board of Auditors are submitted to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

3. The present document contains a tabular summary of recommendations, with paragraph reference to the report of the Board of Auditors for the biennium 1996-1997, listed by area of audit, namely programme expenditure incurred by Governments and executing agencies, cash management, premises management, information management systems, and change management. The table also indicates the UNDP response to each recommendation, as provided to the Board of Auditors during the preparation of its report, as well as the status of any follow-up action and the target date for completion at the date of preparing the present document. The Administrator is pleased to report that progress has

already been achieved in many areas and that efforts are being made to address issues that are still outstanding.

4. The Administrator wishes to indicate that, in response to the above-mentioned resolutions, UNDP has also submitted the present tabular summary report to the General Assembly, through the Secretary-General and ACABQ; it is contained in the report of the Secretary-General on the recommendations of the Board of Auditors (A/53/335/Add.1). The report of ACABQ is contained in document A/53/513.

5. During the course of the audit exercise for the biennium 1996-1997, UNDP provided a detailed written response to all the observations made by the Board of Auditors in the form of management letters. Such observations, findings, recommendations and UNDP responses are reflected in the report of the Board of Auditors.

II. EXECUTIVE BOARD ACTION

6. The Executive Board may wish to note that considerable progress has been made by the United Nations Development Programme in implementing the recommendations of previous reports of the Board of Auditors and that action is being taken to address all recommendations made by the Board of Auditors in its report for the 1996-1997 biennium.

1996/97 EXTERNAL AUDIT FOLLOW-UP ACTIONS AND TIMETABLE

Status as of 20 August 1998

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Programme expenditure incurred by Governments and executing agencies				
Audit reports from Governments				
1 The Board recommends that UNDP retain for at least two bienniums all audit reports received on national execution expenditure to enable the Board of Auditors to complete its audit of those reports that had not been received during the previous biennium.	20	UNDP agrees with the recommendation.	In the future UNDP will archive the audit reports applying the standard procedure for all financial records.	1998
Inventory control of non-expendable property				
2 The Board recommends that UNDP establish clear separation of duties between requisitioning, receipt of goods and maintenance of inventory records.	36	UNDP agrees with the recommendation.	UNDP will establish clear guidelines on segregation of duties.	December 1998
Other income				
3 The Board recommends that the UNDP Financial Regulations be amended to require exchange losses arising other than from voluntary contributions to be charged as expenditures, as suggested by United Nations Accounting Standards, paragraph 29, and in line with practice adopted by United Nations Headquarters.	38	There is no need for a change to the Financial Regulations; however there will have to be a change to Rule 104.3. UNDP has agreed with the Board to report gains/losses in a separate line in the income statement and to provide a separate schedule in a note to the financial statements with the appropriate breakdown.	The proposed revised Financial Rule will be included in the comprehensive revision to the entire Financial Regulations and Rules in 1999.	December 1999

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Cash management				
Cash management policies and guidelines				
4 The Board recommends that UNDP monitor returns on investments against prevailing market rates.	45	UNDP agrees with the recommendation.	UNDP will establish appropriate benchmarks, through the Investment Committee, to be incorporated in its cash management policy and objectives.	Agreed at the Investment Committee on 12 August 1998.
Advances to agencies				
5 The Board recommends that UNDP should define "reasonable period of foreseen cash requirements" for its advances to agencies and regularly review the balance held.	52	UNDP provides funding to United Nations agencies on a monthly basis, based on the agencies' forecast of delivery and cash flow requirements. The levels of advances held are reviewed regularly and advance requests are denied when not satisfactorily justified. A "reasonable period of foreseen cash requirements" has been defined as the requirements for the current month plus needs for one additional month.	Already in place.	
Advances to agencies				
6 The Board recommends that UNDP examine the scope for reducing the extent to which agencies are funded in advance, and where possible, move to a system of reimbursing actual expenditure, thereby reducing cash flow risks and improving financial control.	53	The current method of funding United Nations agencies on a monthly basis, with agencies holding cash needs for between one and two months at any moment in time, dates back to the earliest days of UNDP and has been functioning effectively. The Administrator does not believe that there is any scope for agencies to pre-finance UNDP programme activities against a reimbursement arrangement.	No further action is required.	

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Premises Management				
Management information				
7 The Board recommends that UNDP maintain information on occupancy levels of its headquarters buildings in order to help to control and monitor costs.	67	UNDP has already, in connection with the United Nations Development Group (UNDG) Sub-group on Common Premises and Services, established certain information systems that will be maintained on a regular basis. Towards this end an agreement has been reached within the Sub-group that all four partners will use a common software package (Aperture) to capture systematically data elements of headquarters and country office premises, such as cost, tenure, size, condition, occupancy, etc. This will allow information to be shared among partners and meaningful analyses to be carried out, based on key performance indicators, regarding premises management.	The database is under implementation.	December 1998
Management information				
8 The Board recommends that UNDP develop and adopt key performance indicators to assess the effectiveness and efficiency of field offices and headquarters in managing their real estate. These indicators should include unit cost measures relating directly to the objectives specified in an estate management strategy.	68	See comments in 7 above.		

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Common premises and services				
9 The Board welcomes these developments and recommends that UNDP finalize and issue the guidelines on common premises and services without delay.	71	These initiatives will not be handled by UNDP separately but in a harmonized way under UNDG. The UNDG Sub-group on Common Premises and Services is currently preparing guidelines for common premises. UNDGO is working on final draft Consultative Committee on Programme and Operational Questions (CCPOQ) guidelines on common services (to be presented to CCPOQ in September 1998).	Completion date will be known only after the September 1998 CCPOQ session.	
Rental arrangements and expenditure				
10 The Board recommends that UNDP strengthen its efforts to implement its current policy with regard to seeking rent-free office accommodation.	81	This will be examined in consultation with the Bureau for Planning and Resource Management (BPRM) and the regional bureaux and in the context of the UNDG efforts, as mentioned in comments relevant to recommendation 9.		
Maintenance and alterations				
11 The Board recommends that UNDP prepare a forward plan for maintenance and alterations work to the premises it occupies.	84	UNDP agrees with the observations of the Board.	In this connection, UNDP will establish corporate standards and guidelines to country offices on renovations, maintenance and alterations. A plan for forward maintenance for UNDP headquarters and country office premises will be articulated and proposed as part of the next budget proposal.	1999

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Utilities expenditure				
12 The Board recommends that UNDP collect and analyse energy costs and consumption data for its premises in order to facilitate comparisons and to identify wastage and excessive costs.	86	In the context of the Green Office initiative, UNDP has appointed a coordinator to undertake work on how to reduce energy costs in the buildings that UNDP occupies at headquarters. This is an inter-agency effort and is being done in close cooperation with the Sub-group on Energy Savings, which has been constituted under the auspices of the United Nations Inter-Agency Task Force on Common Services. Recommendations will be included in the next budget proposal. UNDP will look into the possibility of formulating an energy management policy for both headquarters and its country offices.		1999
Space planning and allocation arrangements				
13 The Board recommends that UNDP establish organization-wide standards for space occupancy, with standards flexed to take account of job function within grade.	89	Agreed.	UNDP will develop a policy on space allocation that may include allocation not strictly on the basis of grade alone but may flex this based upon job function within grade. The effort will also be supported by the introduction of the Aperture software mentioned in reference to recommendation 8.	1999

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Information management systems				
Progress on the Financial Information Management System (FIMS) and Integrated Management Information System (IMIS) projects				
14 The Board recommends that UNDP standardize its procedures for investment appraisal of information technology projects to take full account of financial and non-financial benefits, as well as operational requirements.	99	Agreed.	This is now required in all project documents.	Ongoing
Progress on the FIMS and IMIS projects				
15 The Board recommends that UNDP ensure that project status reports include summaries of project expenditure against lifetime and biennial budgets.	100	Agreed.	UNDP will implement the recommendation in all cases in the future.	1998
Financial Information Management System (FIMS)				
16 The Board recommends that UNDP encourage country offices to begin operating the budget module at the earliest opportunity.	103	Agreed.	Under active monitoring.	September 1998
Procurement of information technology services				
17 The Board recommends that UNDP ensure that future contracts provide for payments to be linked to the achievement of specific targets and goals.	117	Agreed.	This will be monitored by the Advisory Committee on Procurement.	Ongoing

	Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
	Year 2000 issue				
18	The Board recommends that UNDP ensure that all systems are tested for Year 2000 compliance with sufficient lead time to correct any deficiencies.	124	Agreed.	All existing systems have been tested and new systems are being developed to be Y2K compliant.	1999
	Change management				
	Cost estimates				
19	The Board recommends that UNDP establish clear arrangements for funding the full costs of the change management initiative.	135	UNDP made a conscious decision to mobilize additional resources needed to carry out the change-related activities and has approached Governments who support UNDP efforts in this regard.	Projects under change initiatives requiring additional funding have been identified with costing. UNDP is actively pursuing donors to support these projects and has so far mobilized an indicative amount of $4.5 million.	December 1999
	Change management process				
20	The Board recommends that UNDP assess the financial and non-financial benefits expected to flow from its change programme and use this assessment to carry out a full investment appraisal of the change initiative.	140	UNDP agrees with the recommendation that the financial and non-financial benefits of the change should be fully assessed and analysed.	The planned comprehensive evaluation of the change process to be undertaken in July-September 1999 will include the investment appraisal element.	September 1999

Board of Auditors findings and recommendations	Paragraph reference	UNDP response to Board of Auditors	Remarks/proposed steps/status	Completion date
Monitoring and evaluation of the change process				
21 The Board recommends that UNDP develop appropriate performance indicators and measures to assess specific change implementation activities, relating these directly to the main objectives of the change process.	150	The UNDP 1998 Strategic Plan is based on the strategic agenda set by UNDP 2001. It has fully integrated all key elements of the change process. Its success criteria and the linkage of results to the objectives of change will provide a solid basis for a comprehensive assessment of the specific change implementation activities for 1998.	The planned assessment of the compacts at the end of 1998, the review of the implementation plan and the Strategic Plan should allow UNDP to evaluate the objectives of the change process.	December 1999